

# **EXHIBIT 8**

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McGUIREWOODS

mhaines@mcguirewoods.com

September 14, 2018

**VIA OVERNIGHT MAIL**

Keith Moffatt, Esq.  
Chesapeake Energy Corp.  
6100 N. Western Avenue  
Oklahoma City, OK 73118

**RE: Baltzey N SUS 7LH, Baltzey S SUS 6LH, and Baltzey S SUS 8LH Well  
Proposals, Rush Township, Susquehanna County, Pennsylvania**

Dear Mr. Moffatt,

We have been retained by Epsilon Energy USA, Inc. ("Epsilon") in conjunction with Epsilon's Baltzey N SUS 7LH, Baltzey S SUS 6LH, and Baltzey S SUS 8LH well proposals to be located in Rush Township, Susquehanna County, Pennsylvania ("Baltzey Well Proposals"). This letter seeks to resolve the outstanding disagreement about the parties' rights and obligations under the October 18, 2010 Operating Agreement for the Baltzey South Unit ("Baltzey South JOA") and the October 18, 2010 Operating Agreement for the Baltzey North Unit ("Baltzey North JOA") (collectively, "Baltzey JOAs").

**Factual Background**

Pursuant to the Baltzey JOAs, Epsilon submitted the Baltzey Well Proposals to the parties with working interests under the Baltzey JOAs ("JOA parties") on April 11, 2018. Per the Baltzey JOAs, Epsilon requested that Chesapeake Appalachia, LLC ("CHK") elect one of three options: (1) operate and participate in the drilling and completion of the proposed Baltzey N SUS 7LH, Baltzey S SUS 6LH, and Baltzey S SUS 8LH wells (collectively, "Proposed Baltzey Wells"); (2) elect not to participate but operate the Proposed Baltzey Wells; or (3) elect not to participate in the Proposed Baltzey Wells and designate Epsilon the operator. *See* April 11, 2018 Letters from Epsilon to CHK, copies of which are attached hereto as Exhibit A.

Atlanta | Austin | Baltimore | Brussels | Charlotte | Charlottesville | Chicago | Dallas | Houston | Jacksonville | London | Los Angeles - Century City  
Los Angeles - Downtown | New York | Norfolk | Pittsburgh | Raleigh | Richmond | San Francisco | Tysons | Washington, D.C. | Wilmington, NC

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On May 11, 2018, CHK responded that it “does not consent to the drilling of the above captioned wells and will remain the operator of the contract area.” See May 11, 2018 Letter from Courtney Moad to John S. Helm (“Election Response Letter”), a copy of which is attached hereto as Exhibit B. As Epsilon advised via letter on May 16, 2018, CHK’s Election Response Letter failed to comply with the terms of the Baltzley JOAs, which required CHK to make an election with regard to both (1) participation in the Proposed Baltzley Wells and (2) operation of the wells. Therefore, Epsilon recognized CHK’s election not to participate in the Proposed Baltzley Wells, but extended CHK’s period to make an election regarding operatorship for five (5) business days. See May 16, 2018 Letter from Henry N. Clanton to Julie Woodard, a copy of which is attached as Exhibit C.

On May 18, 2018, you responded to Epsilon stating that CHK disputed that its Election Response Letter failed to conform to the requirements of the Baltzley JOAs and that CHK stood by its response. See May 18, 2018 letter from Keith Moffatt to Henry N. Clanton, a copy of which is attached hereto as Exhibit D.

Epsilon responded on June 18, 2018, observing that the Baltzley JOAs required it to notify the JOA parties of (1) the total working interests electing to participate in the Proposed Baltzley Wells and (2) whether Epsilon recommended proceeding with the Proposed Baltzley Wells. Epsilon further clarified that the Baltzley JOAs gave CHK, as operator, 90 days from the consenting parties’ elections to commence operations. See June 18, 2018 Letter from Henry N. Clanton to Keith Moffatt, a copy of which is attached hereto as Exhibit E.

In response to Epsilon’s initial proposals, CHK and Statoil (n/k/a Equinor) elected not to participate in any of the Proposed Baltzley Wells. Jamestown Resources (“Jamestown”) elected to participate with its interests only. On June 18, 2018, Epsilon notified the JOA parties of the participation elections and of its decision to participate with the entire interest of the non-consenting parties. June 18, 2018 Letters from Henry N. Clanton, copies of which are attached hereto as Exhibit E.

To date, Epsilon has not received a response from CHK to its June 18, 2018 letter.

#### **Pertinent JOA Provisions**

The Baltzley JOAs provide that CHK is the Operator of the respective contract areas. Baltzley JOAs, Article V.A. (Designation and Responsibilities of Operator). “[CHK] shall be an independent contractor not subject to the control or direction of the Non-Operators *except as to the type of operation to be undertaken in accordance with the election procedures contained in this agreement.*” *Id.* (emphasis added). Further, “[CHK] shall conduct its activities under this agreement as a reasonable prudent operator, in a good and workmanlike manner.” *Id.*

The Baltzley JOAs provide that any JOA party may propose a well within the contract area. Baltzley JOAs, Article VI (Proposed Operations) (“If any party hereto should desire to drill any well...”). Upon receipt of a well proposal, other JOA parties are required to elect whether to participate in the proposed well within 30 days. *Id.*



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If some of the JOA parties elect not to participate (or fail to respond within the allotted 30-day period):

*the proposing party*, immediately after the expiration of the applicable notice period, *shall advise all Parties of the total interest of the parties approving such operation and its recommendation as to whether the Consenting Parties should proceed with the operation as proposed.* Each Consenting Party, within forty-eight (48) hours (exclusive of Saturday, Sunday, and legal holidays) after delivery of such notice, shall advise the proposing party of its desire to (i) limit participation to such party's interest as shown on Exhibit "A" or (ii) carry only its proportionate part (determined by dividing such party's interest in the Contract Area by the interests of all Consenting Parties in the Contract Area) of Non-Consenting Parties' interests, or (iii) carry its proportionate part (determined as provided in (ii)) of Non-Consenting Parties' interests together with all or a portion of its proportionate part of any Non-Consenting Parties' interests that any Consenting Party did not elect to take. Any interest of Non-Consenting Parties that is not carried by a Consenting Party shall be deemed to be carried by the party proposing the operation if such party does not withdraw its proposal. Failure to advise the proposing party within the time required shall be deemed an election under (i). In the event a drilling rig is on location, notice may be given by telephone, and the time permitted for such a response shall not exceed a total of forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays). The proposing party, at its election, may withdraw such proposal if there is less than 100% participation and shall notify all parties of such decision within ten (10) days, or within twenty-four (24) hours if a drilling rig is on location, following expiration of the applicable response period. *If 100% subscription to the proposed operation is obtained, the proposing party shall promptly notify the Consenting Parties of their proportionate interests in the operation and the party serving as Operator shall commence such operation within the period provided in Article VI.B.1., subject to the same extension right as provided therein.*<sup>1</sup>

Baltzley JOA, Article VI.2.(a).

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<sup>1</sup> Notably, no provision within the Baltzley JOAs is identified as "Article VI.B.1." However, both of the possible sections governing the timing for action by an operator provide that the party acting as operator will commence the proposed operations within 90 days unless a drilling rig is on location. See Baltzley JOAs, Article VI.1 and VI.2.(a).

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Further, the Operator is required to drill and complete proposed wells, unless the Operator declines to do so and one of the Consenting Parties is designated as the operator:

*Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (i) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (ii) designate one of the Consenting Parties as Operator to perform such work.*

Baltzley JOAs, Article VI.2.(a) (emphasis added).

We would also like to note that a defaulting party under the JOA may be subject to the suspension of its rights and may be liable for attorneys' fees where another JOA party is required to file suit. Baltzley JOAs, Article VII.D.

### **Discussion**

Pursuant to the Baltzley JOAs, CHK was required to either act as operator of the Proposed Baltzley Wells or to allow Epsilon to act as operator. Baltzley JOAs, Article VI.2(a). The Baltzley JOAs required the operator of the Proposed Baltzley Wells to commence operations within 90 days of the date the parties made elections constituting 100 percent of the working interests under the Baltzley JOAs. Baltzley JOAs, Article VI.1 and VI.2(a). That election occurred on June 18, 2018 when Epsilon elected to participate with the remaining non-participating working interests. See Exhibit E. Therefore, the 90-day period expires on September 16, 2018.

CHK appears to have adopted the position that it may unilaterally prevent a well proposed by another JOA party from being drilled. CHK has no such authority under the Baltzley JOAs, and CHK's responses have not purported to identify any such authority. Under the current circumstances, CHK is required to either act as operator or to allow a consenting party to operate. Baltzley JOAs, Article VI.1 and VI.2(a). CHK's refusal to operate and insistence that only it may operate wells within the Baltzley North and South Units is entirely contrary to the terms of the Baltzley JOAs and constitutes a willful and material breach thereof.

### **Conclusion**

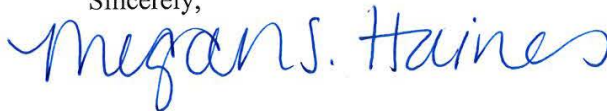
Epsilon has endeavored to maintain a positive partnership with CHK since it first entered into JOAs with CHK in 2010. Epsilon would prefer to resolve the matters discussed herein amicable and to maintain its working relationship with CHK. To that end, Epsilon requests that CHK either (1) immediately commence obtaining required permitting and commit to drilling and completing the Proposed Baltzley Wells before the end of 2018 or (2) agree that Epsilon will be the operator of the Proposed Baltzley Wells and coordinate with Epsilon such that it may obtain the required permitting to act as the operator of the Proposed Baltzley Wells. As there appears to

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be a significant disagreement about the terms of the Baltzley JOAs, Epsilon is agreeable to a call or meeting in the immediate future to further discuss a resolution.

We look forward to your prompt response and are optimistic that relations may remain cordial. However, please be advised that if the dispute identified herein is not significantly closer to being resolved within five (5) business days from the date of this letter, Epsilon will be compelled to institute legal action to compel compliance with the Baltzley JOA terms and to protect Epsilon's legal and property interests at stake thereunder.

Sincerely,



Megan S. Haines

cc: Henry N. Clanton (Epsilon)  
Jonathan Blank, Esq., McGuireWoods LLP  
Equinor Onshore Properties, Inc.  
Jamestown Resources, L.L.C.  
(above w/ enclosures via overnight mail)

**EXHIBIT “A”**





April 11, 2018

FEDEX:810118006554

Chesapeake Appalachia, LLC  
Attn: Julie Woodard  
P. O. Box 18496  
Oklahoma City, Ok 73154-0496

Re: Well Proposal  
**BALTZLEY S SUS 6LH**, Rush Township  
Susquehanna County, Pennsylvania

Dear Ms. Woodard:

Pursuant to the Joint Operating Agreement, dated October 18, 2010, Epsilon Energy USA, Inc., (herein referred to as EPS), respectfully proposes to Chesapeake Appalachia, LLC, (herein referred to as CHK), participation in the Baltzley S SUS 6LH Well in Rush Township, Susquehanna County, Pennsylvania. The proposed Well will be drilled to an approximate vertical depth of 6,450 feet, with a total measured depth of 12,100 feet, to test the Marcellus Shale and all formations which may be encountered in the wellbore. The Surface Location is Latitude 41.769986 and Longitude -76.0413968 and the approximate bottom hole location will be Latitude 41.759123 and Longitude -76.0328976, in Rush Township, in Susquehanna County, Pennsylvania. The anticipated spud date is August 10, 2018.

EPS will drill, complete and operate the proposed Well with its 21.145145% Working Interest. Our records indicate that CHK owns approximately 53.398563% Working Interest in this proposed Well. The estimated Drilling Cost for the Baltzley S SUS 6LH Well is **\$2,165,100.00**, and the estimated total completed well cost is **\$6,713,747.00**, as evidenced by the enclosed AFE.

EPS respectfully requests that CHK elect one of the following options:

- 1) Elect to Operate and Participate in the drilling and or completion of the Baltzley S SUS 6LH Well, and will commence drilling operations in accordance with the current JOA, within ninety (90) days of the expiration of the election period.
- 2) Elect the Non-Consent Provisions, but Operate, under the terms of the current JOA in the Baltzley S SUS 6LH Well, and will commence drilling operations in accordance with the current JOA, within ninety (90) days of the expiration of the election period.
- 3) Elect the Non-Consent Provisions and designate EPS to Operate under the terms of the current JOA, in the Baltzley S SUS 6LH Well and will transfer operatorship of the Baltzley PAD and associated wells to EPS.

**Epsilon Energy USA, Inc.**  
16701 Greenspoint Park Drive,  
Suite 195  
Houston, Texas 77060  
Phone: 281.670.0002  
Fax: 281.668.0985

**PLEASE DIRECT ALL CORRESPONDENCE TO THE HOUSTON OFFICE.**

**Epsilon Energy Ltd.**  
Centennial Place, West Tower  
250 - 5th Street SW  
Suite 2110  
Calgary, AB T2P 0R4



Within thirty (30) days from your receipt of this proposal, please indicate your election, sign and return the election page to EPS, Attn: Henry N. Clanton, 16701 Greenspoint Park Drive, Suite 195, Houston, Texas 77060. If CHK elects to participate, please execute the election page and AFE and return these documents, along with a check in the amount of **\$1,156,132.29** (53.398563% x \$2,165,100.00), which represents CHK's share of Drilling Costs, by May 15, 2018. Failure to make a timely election shall be deemed to be a Non-Consent Election, pursuant to the current JOA.

If you have any questions, please contact the undersigned.

Respectfully,

JOHN S. HELM, CPL

\_\_\_\_\_ CHK elects to operate and participate in the drilling and or completion of the Baltzley S SUS 6LH Well and will commence drilling operations in accordance with the current JOA, within ninety (90) days of the expiration of the election period.

\_\_\_\_\_ CHK elects the Non-Consent provisions of the current JOA, however, will Operate the drilling and or completion of the Baltzley S SUS 6LH Well and will commence drilling operations in accordance with the current JOA, within ninety (90) days of the expiration of the election period.

\_\_\_\_\_ CHK elects the Non-Consent provisions of the current JOA and will designate EPS to Operate under the terms of the current JOA, in the Baltzley S SUS 6LH Well and will transfer operatorship of the Baltzley PAD and associated wells to EPS.

BY: \_\_\_\_\_

NAME: \_\_\_\_\_

TITLE: \_\_\_\_\_

DATE: \_\_\_\_\_

PAGE (2) OF (2) PAGES



April 11, 2018

FEDEX: 810118006554

Chesapeake Appalachia, LLC  
Attn: Julie Woodard  
P. O. Box 18496  
Oklahoma City, Ok 73154-0496

Re: Well Proposal  
**BALTZLEY N SUS 7LH**, Rush Township  
Susquehanna County, Pennsylvania

Dear Ms. Woodard:

Pursuant to the Joint Operating Agreement, dated October 18, 2018, Epsilon Energy USA, Inc., (herein referred to as EPS), respectfully proposes to Chesapeake Appalachia, LLC, (herein referred to as CHK), participation in the Baltzley N SUS 7LH Well in Rush Township, Susquehanna County, Pennsylvania. The proposed Well will be drilled to an approximate vertical depth of 6,400 feet, with a total measured depth of 15,970 feet, to test the Marcellus Shale and all formations which may be encountered in the wellbore. The Surface Location is Latitude 41.7700449 and Longitude -76.0415022 and the approximate bottom hole location will be Latitude 41.7913075 and Longitude -76.0495984, in Rush Township, in Susquehanna County, Pennsylvania. The anticipated spud date is August 10, 2018.

EPS will drill, complete and operate the proposed Well with its 27.721168% Working Interest. Our records indicate that CHK owns approximately 46.589161% Working Interest in this proposed Well. The estimated Drilling Cost for the Baltzley N SUS 7LH Well is **\$2,617,850.00**, and the estimated total completed well cost is **\$9,914,029.00**, as evidenced by the enclosed AFE.

EPS respectfully requests that CHK elect one of the following options:

- 1) Elect to Operate and Participate in the drilling and or completion of the Baltzley N SUS 7LH Well and will commence drilling operations in accordance with the current JOA, within Ninety (90) days of the expiration of the election period.
- 2) Elect the Non-Consent Provisions, but Operate, under the terms of the current JOA in the Baltzley N SUS 7LH Well and will commence drilling operations in accordance with the current JOA, within ninety (90) days of the expiration of the election period.
- 3) Elect the Non-Consent Provisions and designate EPS to Operate under the terms of the current JOA, in the Baltzley N SUS 7LH Well and will transfer operatorship of the Baltzley PAD and associated wells.

**Epsilon Energy USA, Inc.**  
16701 Greenspoint Park Drive,  
Suite 195  
Houston, Texas 77060  
Phone: 281.670.0002  
Fax 281.668.0985

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**Epsilon Energy Ltd.**  
Centennial Place, West Tower  
250 - 5th Street SW  
Suite 2110  
Calgary, AB T2P 0R4

Within thirty (30) days from your receipt of this proposal, please indicate your election, sign and return the election page to EPS, Attn: Henry N. Clanton, 16701 Greenspoint Park Drive, Suite 195, Houston, Texas 77060. If CHK elects to participate, please execute the election page and AFE and return these documents, along with a check in the amount of **\$1,219,634.35** (46.589161% x \$2,617,850.00), which represents CHK's share of Drilling Costs, by May 15, 2018. Failure to make a timely election shall be deemed to be a Non-Consent Election, pursuant to the current JOA.

If you have any questions, please contact the undersigned.

Respectfully,

JOHN S. HELM, CPL

\_\_\_\_\_ CHK elects to operate and participate in the drilling and or completion of the Baltzley N SUS 7LH Well and will commence drilling operations in accordance with the current JOA, within ninety (90) days of the expiration of the election period.

\_\_\_\_\_ CHK elects the Non-Consent provisions of the current JOA, however, will Operate the drilling and or completion of the Baltzley N SUS 7LH Well and will commence drilling operations in accordance with the current JOA, within ninety (90) days of the expiration of the election period.

\_\_\_\_\_ CHK elects the Non-Consent provisions of the current JOA and will allow EPS to Operate under the terms of the current JOA, in the Baltzley N SUS 7LH Well and will transfer operatorship of the Baltzley PAD and associated wells to EPS.

BY: \_\_\_\_\_

NAME: \_\_\_\_\_

TITLE: \_\_\_\_\_

DATE: \_\_\_\_\_

PAGE (2) OF (2) PAGES





April 11, 2018

FEDEX:810118006554

Chesapeake Appalachia, LLC  
Attn: Julie Woodard  
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Susquehanna County, Pennsylvania

Dear Ms. Woodard:

Pursuant to the Joint Operating Agreement, dated October 18, 2010, Epsilon Energy USA, Inc., (herein referred to as EPS), respectfully proposes to Chesapeake Appalachia, LLC, (herein referred to as CHK), participation in the Baltzley S SUS 8LH Well in Rush Township, Susquehanna County, Pennsylvania. The proposed Well will be drilled to an approximate vertical depth of 6,425 feet, with a total measured depth of 13,075 feet, to test the Marcellus Shale and all formations which may be encountered in the wellbore. The Surface Location is Latitude 41.7699201 and Longitude -76.0413005 and the approximate bottom hole location will be Latitude 41.7592015 and Longitude -76.0299539, in Rush Township, in Susquehanna County, Pennsylvania. The anticipated spud date is August 10, 2018.

EPS will drill, complete and operate the proposed Well with its 21.145145% Working Interest. Our records indicate that CHK owns approximately 53.398563% Working Interest in this proposed Well. The estimated Drilling Cost for the Baltzley S SUS 8LH Well is **\$2,198,850.00** and the estimated total completed well cost is **\$6,912,992.00**, as evidenced by the enclosed AFE.

EPS respectfully requests that CHK elect one of the following options:

- 1) Elect to Operate and Participate in the drilling and or completion of the Baltzley S SUS 8LH Well and will commence drilling operations in accordance with the current JOA, within ninety (90) days of the expiration of the election period.
- 2) Elect the Non-Consent Provisions, but Operate, under the terms of the current JOA in the Baltzley S SUS 8LH Well, and will commence drilling operations in accordance with the current JOA, within ninety (90) days of the expiration of the election period.
- 3) Elect the Non-Consent Provisions and allow EPS to Operate under the terms of the current JOA, in the Baltzley S SUS 8LH Well and will transfer operatorship of the Baltzley PAD and associated wells to EPS.

**Epsilon Energy USA, Inc.**  
16701 Greenspoint Park Drive,  
Suite 195  
Houston, Texas 77060  
Phone: 281.670.0002  
Fax: 281.668.0985

**PLEASE DIRECT ALL CORRESPONDENCE TO THE HOUSTON OFFICE.**

**Epsilon Energy Ltd.**  
Centennial Place, West Tower  
250 - 5th Street SW  
Suite 2110  
Calgary, AB T2P 0R4



Within thirty (30) days from your receipt of this proposal, please indicate your election, sign and return the election page to EPS, Attn: Henry N. Clanton, 16701 Greenspoint Park Drive, Suite 195, Houston, Texas 77060. If CHK elects to participate, please execute the election page and AFE and return these documents, along with a check in the amount of **\$1,174,154.30** (53.398563% x \$2,198,850.00), which represents CHK's share of Drilling Costs, by May 15, 2018. Failure to make a timely election shall be deemed to be a Non-Consent Election, pursuant to the current JOA.

If you have any questions, please contact the undersigned.

Respectfully,

JOHN S. HELM, CPL

\_\_\_\_\_ CHK elects to operate and participate in the drilling and or completion of the Baltzley S SUS 8LH Well and will commence drilling operations in accordance with the current JOA, within ninety (90) days of the expiration of the election period.

\_\_\_\_\_ CHK elects the Non-Consent provisions of the current JOA, however, will Operate the drilling and or completion of the Baltzley S SUS 8LH Well and will commence drilling operations in accordance with the current JOA, within Ninety (90) days of the expiration of the election period.

\_\_\_\_\_ CHK elects the Non-Consent provisions of the current JOA and will allow EPS to Operate under the terms of the current JOA, in the Baltzley S SUS 8LH Well and will transfer operatorship of the Baltzley PAD and associated wells to EPS.

BY: \_\_\_\_\_

NAME: \_\_\_\_\_

TITLE: \_\_\_\_\_

DATE: \_\_\_\_\_

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AFE #: D1810128DATE: 04/10/18

WELL NAME: BALTZLEY S SUS 6LH  
 OPERATOR: EPSILON ENERGY USA, INC  
 PROJECT: HIGHWAY 706  
 LOCATION (TRACT): RUSH TOWNSHIP - TAX PARCEL 176-1-12  
 SURFACE OWNER: DAVID E. BALTZLEY  
 API (PERMIT #): TBD  
 COUNTY, STATE: SUSQUEHANNA, PENNSYLVANIA  
 COMMENTS: DRILL AND COMPLETE HORIZONTAL MARCELLUS WELL

PROPOSED TMD: 12,100  
 PROPOSED TVD: 6,450  
 PROPOSED CLAT: 4,350

SUMMARY OF ESTIMATED COSTS	(1) TANGIBLES	(2) INTANGIBLES	(3) TOTAL COSTS
A. DRILLING COST	\$ 152,200	\$ 2,012,900	\$ 2,165,100
B. COMPLETION COST	\$ 532,740	\$ 4,015,907	\$ 4,548,647
C. PLANT & FACILITY COST	\$ -	\$ -	\$ -
D. WORKOVER COST	\$ -	\$ -	\$ -
<b>TOTALS:</b>	<b>\$ 684,940</b>	<b>\$ 6,028,807</b>	<b>\$ 6,713,747</b>

WELL/PROJECT ID#: \_\_\_\_\_

EXPLORATORY ☐DEVELOPMENT ☒WORKOVER ☐RECOMPLETION ☐

WORKING INTEREST OWNER:	PERCENT:	COST SHARE:
CHESAPEAKE APPALACHIA, L.L.C.	53.39856300%	\$ 3,585,044
STATOIL USA ONSHORE PROPERTIES INC.	25.45629200%	\$ 1,709,071
EPSILON ENERGY USA, INC.	21.14514500%	\$ 1,419,632
	100.00000000%	\$ 6,713,747

## OPERATOR'S APPROVAL

PREPARED BY: Henry N. Clardy / COO OPERATIONS DATE: 4/11/18  
 APPROVED BY: [Signature] LAND/LEGAL DATE: 4-11-18  
 APPROVED BY: Shannon E. Lemke / VP Expl GEOLOGY DATE: 4-11-18  
 APPROVED BY: [Signature] ACCOUNTING DATE: 4/11/18

## NON-OPERATOR'S APPROVAL

COMPANY NAME: \_\_\_\_\_ DATE: \_\_\_\_\_  
 APPROVED BY: \_\_\_\_\_  
 TITLE: \_\_\_\_\_

The costs on this AFE are estimates only. In executing this AFE, the participant agrees to pay its proportionate share of all actual costs incurred. Participant shall be covered by and billed proportionately for Operator's well control and general liability insurance unless participant provides Operator a certificate evidencing its own insurance in amounts acceptable to the Operator by the date of spud.

AFE #: D1810129DATE: 04/10/18

WELL NAME: BALTZLEY N SUS 7LH  
 OPERATOR: EPSILON ENERGY USA, INC  
 PROJECT: HIGHWAY 706  
 LOCATION (TRACT): RUSH TOWNSHIP - TAX PARCEL 176-1-12  
 SURFACE OWNER: DAVID E. BALTZLEY  
 API (PERMIT #): TBD  
 COUNTY, STATE: SUSQUEHANNA, PENNSYLVANIA  
 COMMENTS: DRILL AND COMPLETE HORIZONTAL MARCELLUS WELL

PROPOSED TMD: 15,970  
 PROPOSED TVD: 6,400  
 PROPOSED CLAT: 8,200

SUMMARY OF ESTIMATED COSTS	(1) TANGIBLES	(2) INTANGIBLES	(3) TOTAL COSTS
A. DRILLING COST	\$ 152,200	\$ 2,465,650	\$ 2,617,850
B. COMPLETION COST	\$ 596,681	\$ 6,699,498	\$ 7,296,179
C. PLANT & FACILITY COST	\$ -	\$ -	\$ -
D. WORKOVER COST	\$ -	\$ -	\$ -
<b>TOTALS:</b>	<b>\$ 748,881</b>	<b>\$ 9,165,148</b>	<b>\$ 9,914,029</b>

WELL/PROJECT ID#: \_\_\_\_\_

EXPLORATORY ☐DEVELOPMENT ☒WORKOVER ☐RECOMPLETION ☐

WORKING INTEREST OWNER:	PERCENT:	COST SHARE:
CHESAPEAKE APPALACHIA, L.L.C.	46.58916100%	\$ 4,618,863
STATOIL USA ONSHORE PROPERTIES INC.	23.18967100%	\$ 2,299,031
EPSILON ENERGY USA, INC.	27.72116800%	\$ 2,748,285
JAMESTOWN RESOURCES, L.L.C.	2.50000000%	\$ 247,851
	100.00000000%	\$ 9,914,029

## OPERATOR'S APPROVAL

PREPARED BY: Henry N. Cigata / COO OPERATIONS DATE: 4/11/18  
 APPROVED BY: [Signature] LAND/LEGAL DATE: 4-11-18  
 APPROVED BY: Shannon E. Lemke / VP Expl. GEOLOGY DATE: 4-11-18  
 APPROVED BY: [Signature] ACCOUNTING DATE: 4/11/18

## NON-OPERATOR'S APPROVAL

COMPANY NAME: \_\_\_\_\_ DATE: \_\_\_\_\_  
 APPROVED BY: \_\_\_\_\_  
 TITLE: \_\_\_\_\_

The costs on this AFE are estimates only. In executing this AFE, the participant agrees to pay its proportionate share of all actual costs incurred. Participant shall be covered by and billed proportionately for Operator's well control and general liability insurance unless participant provides Operator a certificate evidencing its own insurance in amounts acceptable to the Operator by the date of spud.



AFE #: D1810130DATE: 04/10/18

WELL NAME: BALTZLEY S SUS 8LH  
 OPERATOR: EPSILON ENERGY USA, INC  
 PROJECT: HIGHWAY 706  
 LOCATION (TRACT): RUSH TOWNSHIP - TAX PARCEL 176-1-12  
 SURFACE OWNER: DAVID E. BALTZLEY  
 API (PERMIT #): TBD  
 COUNTY, STATE: SUSQUEHANNA, PENNSYLVANIA  
 COMMENTS: DRILL AND COMPLETE HORIZONTAL MARCELLUS WELL

PROPOSED TMD: 13,075  
 PROPOSED TVD: 6,425  
 PROPOSED CLAT: 4,550

SUMMARY OF ESTIMATED COSTS	(1) TANGIBLES	(2) INTANGIBLES	(3) TOTAL COSTS
A. DRILLING COST	\$ 122,200	\$ 2,076,650	\$ 2,198,850
B. COMPLETION COST	\$ 552,699	\$ 4,161,443	\$ 4,714,142
C. PLANT & FACILITY COST	\$ -	\$ -	\$ -
D. WORKOVER COST	\$ -	\$ -	\$ -
<b>TOTALS:</b>	<b>\$ 674,899</b>	<b>\$ 6,238,093</b>	<b>\$ 6,912,992</b>

WELL/PROJECT ID#: \_\_\_\_\_

EXPLORATORY ☐DEVELOPMENT ☒WORKOVER ☐RECOMPLETION ☐

WORKING INTEREST OWNER:	PERCENT:	COST SHARE:
CHESAPEAKE APPALACHIA, L.L.C.	53.39856300%	\$ 3,691,438
STATOIL USA ONSHORE PROPERTIES INC.	25.45629200%	\$ 1,759,791
EPSILON ENERGY USA, INC.	21.14514500%	\$ 1,461,762
	100.00000000%	\$ 6,912,992

## OPERATOR'S APPROVAL

PREPARED BY: Henry N. Chasty / COO OPERATIONS DATE: 4/11/18  
 APPROVED BY: [Signature] LAND/LEGAL DATE: 4-11-18  
 APPROVED BY: Shannon E. Linko / JPE GEOLOGY DATE: 4-11-18  
 APPROVED BY: [Signature] ACCOUNTING DATE: 4/11/18

## NON-OPERATOR'S APPROVAL

COMPANY NAME: \_\_\_\_\_ DATE: \_\_\_\_\_  
 APPROVED BY: \_\_\_\_\_  
 TITLE: \_\_\_\_\_

The costs on this AFE are estimates only. In executing this AFE, the participant agrees to pay its proportionate share of all actual costs incurred. Participant shall be covered by and billed proportionately for Operator's well control and general liability insurance unless participant provides Operator a certificate evidencing its own insurance in amounts acceptable to the Operator by the date of spud.



**EXHIBIT “B”**



**Courtney Moad**  
Staff Landman

May 11, 2018

Epsilon Energy USA, Inc.  
Mr. John S. Helm  
16701 Greenspoint Park Drive, Ste 195  
Houston, TX 77060

RE: Well Proposals  
Baltzley S SUS 6LH  
Baltzley S SUS 8LH  
Baltzley N SUS 7LH  
Rush Township  
Susquehanna County, Pennsylvania

Dear Mr. Helm:

Pursuant to Epsilon Energy, USA, Inc.'s proposal Letters received April 11, 2018, and that certain Joint Operating Agreement dated October 18, 2010, Chesapeake Appalachia, L.L.C. does not consent to the drilling of the above captioned wells and will remain the operator of the contract area.

Should you have any questions, please contact the undersigned at 405-935-9164 or by email at [courtney.moad@chk.com](mailto:courtney.moad@chk.com).

Respectfully,

Chesapeake Appalachia, L.L.C.

A handwritten signature in blue ink, appearing to read "Courtney Moad", written over the printed name.

Courtney Moad

Chesapeake Energy Corporation  
P.O. Box 18496 / Oklahoma City, OK 73154-0496 / 6100 N. Western Avenue / Oklahoma City, OK 73118  
405-935-9164 // [courtney.moad@chk.com](mailto:courtney.moad@chk.com)

**EXHIBIT “C”**



May 16, 2018

FEDEX: 7722 5177 7895

Chesapeake Appalachia, LLC  
Attn: Julie Woodard  
6100 N. Western Ave  
Oklahoma City, Ok 73118

Re: Well Proposal Elections  
**Baltzley N SUS 7LH, Baltzley S SUS 6LH**  
**and Baltzley S SUS 8LH**, Rush Township,  
Susquehanna County, Pennsylvania

Dear Ms. Woodard:

Pursuant to the Joint Operating Agreement (JOA), dated October 18, 2010 between Epsilon and Chesapeake Appalachia, LLC, Epsilon presented the subject Well Proposals to Chesapeake, dated April 11, 2018. According to the above referenced JOA, failure to fully complete the election within the notice period of 30 days is deemed an election to not participate and not operate the subject well proposals.

Further, Epsilon is in receipt of Statoil USA Onshore Properties, Inc.'s Non-Consent Election Letter, dated May 10, 2018. We are also in receipt of Chesapeake Appalachia, LLC's non-conforming Non-Consent Election Letter, dated May 11, 2018. We respect your election to Non-Consent your participation in these proposed operations, however, your letter does not fully satisfy the requirements of the election regarding Operatorship.

Notwithstanding the above, Epsilon is hereby extending Chesapeake's election period to provide the opportunity to satisfy the requirement to complete the remaining portion of the election outlined on page 2 as to operations only as we have recognized your election to Non-Consent participation in the proposed operations.

Should Epsilon not receive your election regarding Operatorship by notifying Epsilon in writing within 5 business days, then in accordance with the subject JOA, Epsilon will be the Operator of Record of the subject well proposals and will commence operations following the approval of the transfer of Operatorship permits.

Respectfully,

A handwritten signature in blue ink that reads "Henry N. Clanton".

HENRY N. CLANTON  
CHIEF OPERATING OFFICER

*Epsilon Energy USA, Inc.*

16701 Greenspoint Park Drive,  
Suite 195  
Houston, Texas 77060  
Phone: 281.670.0002  
Fax: 281.668.0985

PLEASE DIRECT ALL CORRESPONDENCE TO THE HOUSTON OFFICE.

*Epsilon Energy Ltd.*

14505 Bannister Road SE  
Suite 300  
Calgary, AB T2X 3J3





\_\_\_\_\_ Chesapeake Appalachia, LLC has elected the Non-Consent Provisions, but will Operate, under the terms of the current JOA in the Baltzley N SUS 7LH, Baltzley S SUS 6LH and Baltzley S SUS 8LH Wells and will commence drilling operations in accordance with the current JOA, within ninety (90) days of the expiration of the election period.

\_\_\_\_\_ Chesapeake Appalachia, LLC has elected the Non-Consent Provisions and designates Epsilon Operating LLC to Operate under the terms of the current JOA, in the Baltzley N SUS 7LH, Baltzley S SUS 6LH and Baltzley S SUS 8LH Wells and has executed the attached Pennsylvania DEP Form's 5500-PM-OG0010, Rev 9/2006 and 8000-PM-OOGM0012, dated 11/2014, to effect this change.

BY: \_\_\_\_\_  
CHESAPEAKE APPALACHIA, LLC

NAME: \_\_\_\_\_

TITLE: \_\_\_\_\_

DATE: \_\_\_\_\_

PAGE (2) OF (2) PAGES

*Epsilon Energy USA, Inc.*

16701 Greenspoint Park Drive,  
Suite 195  
Houston, Texas 77060  
Phone: 281.670.0002  
Fax: 281.668.0985

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8000-PM-OOGM0012 11/2014



COMMONWEALTH OF PENNSYLVANIA  
DEPARTMENT OF ENVIRONMENTAL PROTECTION  
OFFICE OF OIL AND GAS MANAGEMENT

## Application for Transfer of the Erosion and Sediment Control General Permit (ESCGP) Approval

[illegible]



COMMONWEALTH OF PENNSYLVANIA  
DEPARTMENT OF ENVIRONMENTAL PROTECTION  
OIL AND GAS MANAGEMENT PROGRAM

[illegible]

**EXHIBIT “D”**



MAY 22 2018



**Keith E. Moffatt**  
*Sr. Attorney – Appalachia North*

May 18, 2018

Henry N. Clanton  
Chief Operating Officer  
Epsilon Energy  
16701 Greenspoint Park Dr., Suite 195  
Houston, TX 77060

Re: Well Proposal Elections  
Baltzley N SUS 7LH, Baltzley S SUS 6LH, and Baltzley S SUS 8LH  
Rush Township, Susquehanna County, Pennsylvania

Dear Mr. Clanton:

I have been asked to respond to your May 16, 2018, letter to Julie Woodard regarding the captioned matter. Chesapeake Appalachia, L.L.C. ("Chesapeake") disputes that its election letter dated May 11, 2018, did not conform to the requirements of the Joint Operating Agreement dated October 18, 2010 ("JOA"), between Chesapeake and Epsilon Energy USA, Inc. ("Epsilon"). Further, Chesapeake disputes that the JOA grants Epsilon the unilateral right to take over operatorship and drill the captioned wells or that the JOA imposes an obligation on Chesapeake, as a non-consent operator, to commence drilling operations within 90 days of the expiration of the election period. Accordingly, Chesapeake stands by its May 11, 2018, election letter and is prepared to defend its position, if necessary.

If you have any questions regarding this matter, please feel free to contact me.

Very truly yours,

A handwritten signature in black ink that reads "Keith E. Moffatt". The signature is written in a cursive, flowing style.

Keith E. Moffatt

KEM/cm

**EXHIBIT “E”**



June 18, 2018

FEDEX: 7725 0367 3460

Chesapeake Energy Corporation  
6100 N. Western Avenue  
Oklahoma City, Oklahoma 73118  
Attention: Mr. Keith Moffatt

Re: Well Proposal Elections

**Baltzley N SUS 7LH, Baltzley S SUS 6LH  
and Baltzley S SUS 8LH**, Rush Township,  
Susquehanna County, Pennsylvania

Dear Mr. Moffatt,

Epsilon Energy USA, Incorporated (Epsilon) is in receipt of your letter dated May 18, 2018. In your letter you confirm that Chesapeake elected to "not" participate in the captioned well proposals from Epsilon. You further state that Chesapeake disputes that the JOA grants to Epsilon the unilateral right to take over operations and drill the captioned wells or that the JOA imposes an obligation on Chesapeake, as a non-consent operator, to commence drilling operations within 90 days of the expiration of the election period.

Epsilon does not agree with your position. Under the JOA, since less than all parties elected to participate in the proposals to drill the captioned wells, Epsilon is required to notify all of the parties of the total interest of the parties approving such operation and of its recommendation as to whether the consenting parties should proceed with the operation as proposed. Each consenting party has a specified period of time to elect to participate with its interests and to elect to increase its interests with some or all of the non-consenting parties' interests. Any interest of a non-consenting party will be subject to the Non-Consent Provisions of the JOA.

Upon receipt of the elections results, the proposing party will notify the consenting parties of their interest in the proposed operation and the party serving as Operator shall commence such operation within the period provided in Article VI.B.1, subject to the same extension as provided therein. That period is 90 days from the expiration of the 30 days response period to the initial period.

Attached is a letter dated June 18, 2018, sent by Epsilon to all parties to the JOA's for the captioned wells, recommending proceeding with the proposed operations and setting forth the total interest of the parties approving such operations. The letter also states that Epsilon will participate with the interest of all non-consenting parties, pursuant to the Non-Consent Provisions of the JOA's.

Consequently, under the clear terms of the JOA's, Chesapeake as the current Operator is required to commence the proposed operations within the time period specified above.

*Epsilon Energy USA, Inc.*

16701 Greenspoint Park Drive,  
Suite 195  
Houston, Texas 77060  
Phone: 281.670.0002  
Fax: 281.668.0985

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*Epsilon Energy Ltd.*

14505 Bannister Road SE  
Suite 300  
Calgary, AB T2X 3J3



Epsilon will suffer considerable damages and incur significant costs and expenses, if Chesapeake fails to timely comply with its obligations under the JOA's and Epsilon will pursue all remedies available at law or equity relating to such failure.

Very Truly Yours,

A handwritten signature in blue ink that reads "Henry N. Clanton".

Henry N. Clanton  
Chief Operating Officer  
Epsilon Energy USA, Inc.  
16701 Greenspoint Park Drive; STE 195  
Houston, TX 77060  
281.670.0002

CC: DLA  
Briechle Law Offices, PC

---

*Epsilon Energy USA, Inc.*

16701 Greenspoint Park Drive,  
Suite 195  
Houston, Texas 77060  
Phone: 281.670.0002  
Fax: 281.668.0985

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14505 Bannister Road SE  
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Calgary, AB T2X 3J3





June 18, 2018

FEDEX: 7725 0367 3460

Chesapeake Appalachia, LLC  
Attn: Julie Woodard  
6100 N. Western Ave  
Oklahoma City, Ok 73118

Re: Well Proposal Elections  
**Baltzley N SUS 7LH, Baltzley S SUS 6LH  
and Baltzley S SUS 8LH**, Rush Township,  
Susquehanna County, Pennsylvania

Dear Ms. Woodard:

Regarding the subject well proposals, Epsilon Energy USA, Inc (Epsilon) is in receipt of both Chesapeake's and Statoil's elections to not participate in the proposed wells and in receipt of Jamestown Resources' (Jamestown) election to participate with it's interest only, in the Baltzley N SUS 7LH Well.

Pursuant to the Joint Operating Agreements, covering the North and South Baltzley Units, dated October 18<sup>th</sup>, 2018, Epsilon hereby elects to participate with the entire interest of non-consenting parties. Accordingly, Epsilon will participate with 100% of the Working Interest in the Baltzley S SUS 6LH and will participate with 100% of the Working Interest in the Baltzley S SUS 8LH. Epsilon will also participate with 97.50% Working Interest in the Baltzley N SUS 7LH Well and Jamestown will participate with its 2.50% Working Interest. The aforementioned participation is in accordance with the non-consent provisions contained in the aforementioned JOA's.

Therefore, with 100% of the available interests in the proposed wells being fully subscribed, Epsilon recommends to Chesapeake as Operator to proceed with the proposed drilling of the subject wells.

Very Truly Yours,

A handwritten signature in blue ink that reads "Henry N. Clanton".

Henry N. Clanton  
Chief Operating Officer  
Epsilon Energy USA, Ltd.  
16701 Greenspoint Park Drive; STE 195  
Houston, TX 77060  
281.670.0002

CC: DLA and Brieche Law Offices, PC

**Epsilon Energy USA, Inc.**

16701 Greenspoint Park Drive,  
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Fax: 281.668.0985

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Calgary, AB T2X 3J3



June 18, 2018

FEDEX: 7725 0391 1507

Statoil USA Onshore Properties, Inc.

Attn: James Jeter

6300 Bridge Point Parkway, Building 2, Suite 100

Austin, TX 78730

Re: Well Proposal Elections

**Baltzley N SUS 7LH, Baltzley S SUS 6LH**

**and Baltzley S SUS 8LH**, Rush Township,

Susquehanna County, Pennsylvania

Dear Mr. Jeter:

Regarding the subject well proposals, Epsilon Energy USA, Inc (Epsilon) is in receipt of both Chesapeake's and Statoil's elections to not participate in the proposed wells and in receipt of Jamestown Resources' (Jamestown) election to participate with it's interest only, in the Baltzley N SUS 7LH Well.

Pursuant to the Joint Operating Agreements, covering the North and South Baltzley Units, dated October 18<sup>th</sup>, 2018, Epsilon hereby elects to participate with the entire interest of non-consenting parties. Accordingly, Epsilon will participate with 100% of the Working Interest in the Baltzley S SUS 6LH and will participate with 100% of the Working Interest in the Baltzley S SUS 8LH. Epsilon will also participate with 97.50% Working Interest in the Baltzley N SUS 7LH Well and Jamestown will participate with its 2.50% Working Interest. The aforementioned participation is in accordance with the non-consent provisions contained in the aforementioned JOA's.

Therefore, with 100% of the available interests in the proposed wells being fully subscribed, Epsilon recommends to Chesapeake as Operator to proceed with the proposed drilling of the subject wells.

Very Truly Yours,

A handwritten signature in blue ink that reads "Henry N. Clanton".

Henry N. Clanton

Chief Operating Officer

Epsilon Energy USA, Ltd.

16701 Greenspoint Park Drive; STE 195

Houston, TX 77060

281.670.0002

CC: DLA and Briechele Law Offices, PC

*Epsilon Energy USA, Inc.*

16701 Greenspoint Park Drive,  
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Houston, Texas 77060

Phone: 281.670.0002

Fax: 281.668.0985

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*Epsilon Energy Ltd.*

14505 Bannister Road SE  
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Calgary, AB T2X 3J3



June 18, 2018

FEDEX: 7725 0394 3914

Jamestown Resources, LLC  
Attn: Travis C. Jenkins  
717 Texas Avenue, STE 3100  
Houston, TX 77002

Re: Well Proposal Elections

**Baltzley N SUS 7LH, Baltzley S SUS 6LH  
and Baltzley S SUS 8LH**, Rush Township,  
Susquehanna County, Pennsylvania

Dear Mr. Jenkins:

Regarding the subject well proposals, Epsilon Energy USA, Inc (Epsilon) is in receipt of both Chesapeake's and Statoil's elections to not participate in the proposed wells and in receipt of Jamestown Resources' (Jamestown) election to participate with it's interest only, in the Baltzley N SUS 7LH Well.

Pursuant to the Joint Operating Agreements, covering the North and South Baltzley Units, dated October 18<sup>th</sup>, 2018, Epsilon hereby elects to participate with the entire interest of non-consenting parties. Accordingly, Epsilon will participate with 100% of the Working Interest in the Baltzley S SUS 6LH and will participate with 100% of the Working Interest in the Baltzley S SUS 8LH. Epsilon will also participate with 97.50% Working Interest in the Baltzley N SUS 7LH Well and Jamestown will participate with its 2.50% Working Interest. The aforementioned participation is in accordance with the non-consent provisions contained in the aforementioned JOA's.

Therefore, with 100% of the available interests in the proposed wells being fully subscribed, Epsilon recommends to Chesapeake as Operator to proceed with the proposed drilling of the subject wells.

Very Truly Yours,

A handwritten signature in blue ink that reads "Henry N. Clanton".

Henry N. Clanton  
Chief Operating Officer  
Epsilon Energy USA, Ltd.  
16701 Greenspoint Park Drive; STE 195  
Houston, TX 77060  
281.670.0002

CC: DLA and Brieche Law Offices, PC

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